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Canadian Livestock Industry - September 1951 Review 1/

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The important developements in the Canadian Livestock Industry during the first eight months of 1951 have been: a sharp decline in the slaughter of cattle and of calves, especially of calves, and also in exports of cattle and calves to the United States; a sharp increase in exports of beef to the United States; a sharp decline in the slaughter of sheep and lambs; a moderate decrease in the slaughter of hogs; and advancing livestock prices that not only carried the prices of all classes to new all time peaks but also carried these to the highest level relative to prices in United States markets ever reached. As of late August crop prospects pointed to record or near record harvests of wheat, barley and oats and, because of the lateness of the season in the Prairie Provinces, the probability that there would be a large supply of wheat that would only grade as feeding wheat.

These developements point to prospective large increases in livestock numbers in Canada. The number of cattle which had been declining for 6 years showed a small increase on December 1, 1950 over a year earlier. A much larger increase (over $3\frac{1}{2}$ percent) in numbers on June 1, 1951 over a year earlier has recently been shown and a still further increase by December 1, 1951 is probable. Because of the relatively more favorable prices of cattle for slaughter than of dairy products all of the increase in numbers on June 1 was in cattle other than cows for milk. These declined about 2 percent. Sheep numbers are believed to have reached the bottom of their sharp decline and are expected to show a gain in numbers during 1951, the expansion encouraged by the relatively favorable prices of lambs and

1/ This current review of the Canadian Livestock is supplemental to the basic study of that industry made a year ago by Mr. Harlan under RMA, for which a report is now in progress of publication.

wool. In view of the large supplies of feed grains in prospect both from this year's production and carryover from last year and the very favorable hog-barley price relationship that has prevailed for some months, a substantial increase in hog production was fairly certain. The June pig report shows a 13 percent increase in the 1951 spring pig crop and forecasts an increase of 23 percent in sows to farrow in the fall season of 1951. The situation in Canada at the present time is quite similar to that which prevailed about 10 years ago in the early years of World War II. At that time, as a result of several years of large production, record supplies of wheat and feed grains had been accumulated, live stock prices were relatively favorable and a seemingly insatiable demand for meats was in prospect. The production of all classes of meat animals was rapidly expanded and the numbers and the slaughter of all classes reached all time records. One difference between the present situation and that of 10 years ago should be noted. At that time there was an unlimited outlet for pork products in Great Britain and a large military and export outlet for beef. Exports of pork products and of fresh and frozen beef to Britain surpassed all previous records. At the present time there is no outlet in Britain for either pork or beef and the only available export outlets for large quantities of either seems to be the United States.

Although prices of foods and especially of meats have increased in Canada during the last 12 months equally or more rapidly than in the United States no direct price controls have been established. Present controls on inflationary presures have been limited to financial and fiscal measures to restrict credit and hold down consumers' expendable incomes. As regards livestock prices, these controls as yet seem to have been of no effect. At the same time, the imposition of ceiling prices on meats and on slaughter cattle in the United States seems to have had the effect of enhancing livestock prices in Canada. This conclusion is based upon a comparison of the movement of livestock prices in the two countries during the past four months and on the relationship of prices in the two countries compared with the usual relationship.

A comparison of prices of cattle at Toronto and at Chicago, two leading cattle markets in the two countries, over a long period of years shows that prices for fairly comparable grades of slaughter cattle at Toronto have always been below those at Chicago-these prices in each case being in terms of dollars and cents of the respective currencies. That is, no adjustments in prices for changes in the exchange ratios of the dollars have been made. This situation has prevailed because Canada has normally been an exporter of cattle and beef to the United States and for the past thirty years there has been an import tariff on cattle and beef coming into the United States. In the summer of 1950 prices of good beef steers at Toronto reached practically the same level as those of the same grade of cattle at Chicago. At that time, however, the Canadian dollar was officially discounted about 9 percent (110 Canadian for 100 U.S.) and there was a heavy

movement of both slaughter cattle and of beef from Canada to the States. When in the fall of 1950 exchange control was removed and the discount dropped to a range of 4 to 6 percent, cattle prices in Toronto again dropped below those at Chicago.

This situation continued during most of the first five months of this year but with a tendency for the spread to narrow. When ceiling prices on slaughter cattle went into effect in the United States in early June, cattle prices at Chicago tended to decline but at Toronto they advanced. By the middle of June the prices of good beef steers at Toronto exceeded those at Chicago. From then until about the end of July the average weekly prices of such steers were about $1.50 a hundred pounds above those at Chicago but during August this spread narrowed to about $1.00, as prices at Toronto weakened and those at Chicago changed but little.

During the period when cattle prices were advancing at Toronto and were higher than at Chicago, there was a large movement of beef from Canada to the United States. During the three months from the middle of April to the middle of July such exports totaled about 44.5 million pounds and were nearly 25 million pounds larger than in the same period in 1950 but the exports of cattle for slaughter were much smaller during the period in 1951 than in 1950, 25.4 thousand head compared with 40.5 thousand. There is no clear explanation of the reasons for this anomolous situation. The most likely one has to do with the operation of the wholesale price ceilings on beef which went into effect during the first half of May in the United States. This regulation established wholesale selling prices for beef carcasses and carcass cuts and for fabricate beef cuts. The base prices were for sales by slaughters and to these prices specified additions could be made by wholesale meat dealers who were not slaughterers but who bought beef in large lots from slaughterers for resale in wholesale quantities. The regulation did not specifically set ceiling prices that wholesalers could pay for beef--these apparently being set by the ceiling prices for beef sold by packers. Thus there was no specific restriction on the prices that wholesalers could pay for beef imported from Canada and an original decision by OPS was that wholesalers could buy Canadian beef at such prices as they could provided that it was sold within the range of their wholesale ceilings. Under this regulation if a Canadian Packer consigned beef to a wholesale dealer or to a sales agent in the States for sale in the States, the wholesale ceilings would apply but if a wholesaler in the States bought beef in Canada and had it shipped to him, he would pay the Canadian wholesale price plus the U.S. duty of 3 cents a pound and shipping costs. Presumably the beef would have to be graded by a U.S. government grader before being sold and the fees for this paid. Offsetting the cost in Canada was the discount on the Canadian dollar running 4 or 5 percent. This discount would largely offset the duty and a wholesaler in New York could pay in Canadian dollars about the Chicago wholesale price for a car load of carcass beef in Toronto and lay it down in New York at about the same cost as if bought in Chicago.

From about the middle of May, when wholesale price ceilings on carcass beef became operative until the end of August the quotations of the weekly average prices of good steer beef at Chicago have changed but little. When ceiling prices on live cattle became operative early in June the prices of good beef steers at Chicago started to decline. But at the same time the prices of good beef steers at Toronto began to advance until Toronto prices were $1.50 above Chicago. During this period exports of beef from Canada to the States were quite large. It would seem that slaughterers in Canada could sell beef for shipment to the States at prices enough higher so that they could pay more for cattle, and that wholesale dealers in the states were paying more for Canadian beef than similar beef bought in the States would cost them if bought at ceilings. This would seem to indicate that the mark-ups allowed wholesalers for sales of beef cuts and especially of fabricated beef cuts were sufficiently liberal that they could sell at these prices and pay more than the established ceilings at which they bought; also they may have been able to handle this additional volume at lower costs especially in a tight market where there was little risk of market declines.

This conclusion seems to be supported by the fact that imports of beef dropped off sharply after August 1 following an OPS regulation that prohibited the importation of beef purchased at prices above domestic ceilings at point of consignment. With this decline in exports, the prices of good beef steers at Toronto started to weaken but they have still continued relatively high when compared with prices at Chicago.

The high prices of beef at retail and the reduced supply resulting from the decrease in cattle slaughter and the large exports of beef tended to be reflected in an enlarged consumer demand for pork products in Canada. From the middle of April to the middle of July hog prices at Toronto advanced nearly a third and in July reached the highest level on record. The weekly average price reached $40.00 a hundred, dressed weight basis, for top bacon hogs at Toronto equivalent to about $30.00 on a live weight basis. This price was up over $8.00 a hundred from the corresponding period in July 1 a year earlier. During the same period prices of butcher hogs at Chicago advanced less than $2.00 a hundred and in the middle of July were from $1.00 to $1.50 below a year earlier. In April prices at Chicago were about $2.00 lower than at Toronto, live weight basis, but in July they were nearly $7.00 lower. This was much the largest spread in prices between the two markets ever shown. This unusual price relationship resulted partly from the fact that hog slaughter in Canada during this period was declining in relation to the previous year while in the States it was substantially larger and second largest for the period on record.

Present indications are that the per capita consumption of meats in Canada will be smaller in 1951 than in 1950, and the smallest in 10 years. Per capita consumer expenditures for meat, however, will be larger than in 1950 and the largest on record. Despite increased consumer incomes in 1951,

resulting from high employment and increased wages, consumers expenditures for meat as a percentage of total expenditures will be higher than in 1950 and probably the highest on record.

The report of the Dominion Bureau of Statistics giving the estimates of the number of livestock on farms June 1, 1951 was released in September. This report shows that the number of all cattle increased from 9,045,000 head on June 1, 1950 to 9,333,000 head on June 1, 1951. The number of cows kept for milk, however, decreased from 3,609,000 head to 3,542,000 head. This increase of 288,000 head in all cattle in June follows a small increase of 49,000 head shown in the estimates of numbers on December 1, 1950. Slaughter and export of cattle and calves have been substantially smaller since June 1 to the end of September than during the same period a year earlier. This points to a larger increase in numbers in December than that shown for June 1. The decline in milk cow numbers, when all cattle were increasing, reflects the relatively much higher prices for cattle for slaughter than for dairy products.

The estimated number of sheep, including spring lambs, on farms June 1, 1951 was 1,968,000 head, a decrease of 47,000 head from a year earlier. The estimated number on December 1, 1950 showed a small increase over a year earlier of 9,000 head. The numbers on December 1 are largely stock sheep, ewes and ewe lambs being kept for breeding. Since slaughter and exports of sheep and lambs from December 1, 1950 to June 1, 1951 were smaller than a year earlier it is probable that the number of breeding ewes on June 1, 1951 was larger than a year earlier and that all of the decrease in the total was in spring born lambs.

The June 1 estimate shows that the number of all hogs and pigs this year was 5,875,000 head, an increase of 528,000 head over a year earlier. Most of this increase was in spring pigs--pigs under six months June 1-- the number of which was up from 4,054,000 head to 4,525,000 head. The number of hogs over six months was up only 157,000 head from 1,193,000 head on June 1, 1950. The June 1 pig crop report, based upon the June 1 livestock survey shows that the 1951 spring pig crop was 13 percent larger than the spring crop of 1950; also that farmers breeding intentions for fall farrowings indicate an increase of 23 percent in the fall season of 1951 over that of 1950. With a large carryover of both feed grains and wheat from 1950 and with record or near record crops in prospect for this year a further increase in pig crops in 1952 is not unlikely, especially if the hog-barley price ratio continues as highly favorable for hog production as it has been for some months.

For the last 40 years, at least, changes in the numbers of meat animals in Canada have been very similar to those in the United States. The present upswing in numbers of the three species corresponds to the increases that have occurred in the States during the past two years but with a somewhat longer lag than in other periods when numbers were increasing. It may well be that within the next two or three years the combined slaughter of cattle and calves in the two countries will exceed all previous records and that the combined slaughter of hogs may exceed any previous record except that in the war years of 1943 and 1944.